

MORTGAGE DEBT RELIEF ACT



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H.R. 3648: 'Mortgage Forgiveness Debt Relief Act of 2007'

Legislation: 2007-2008 (110th Congress)

To amend the Internal Revenue Code of 1986 to exclude discharges of indebtedness on principal residences from gross income, and for other purposes.

The US House of Representatives approved legislation that would permanently eliminate taxes on people who have their mortgage debt canceled.

The House approved the bill by a 386-27 vote, over some Republican complaints that the tax elimination would be offset by new taxes on people with second homes. Republicans tried unsuccessfully to reconsider getting rid of this new tax as part of the bill.

Under current law, cancelled mortgage debt on primary residences counts as taxable income. But the bill, the 'Mortgage Forgiveness Debt Relief Act', would allow borrowers to avoid this tax hit as long as the debt forgiven by a bank is debt on a primary residence.

The Bush administration has said it wants this tax relief to be temporary, and warned earlier this week that it would seek changes to the bill as it moves through Congress. The bill next has to be approved by the Senate, where a similar bill is expected to be introduced soon.

Schedule

Introduced	September 25, 2007
Scheduled for debate	September 26, 2007
Amendment proposed	October 4, 2007
Passed House	October 4, 2007
To Senate for review & approval	TBD
To President for review & approval	TBD

(The totals were 386 Ayes, 27 Nays, 19 Present/Not Voting)

Sponsor: Rep. Charles Rangel (D-NY)

Cosponsors: Rep. Robert Andrews [D-NJ]

Rep. Shelley Berkley [D-NV]

Rep. Earl Blumenauer [D-OR]

Rep. Virginia Brown-Waite [R-FL]

Rep. Joseph Crowley [D-NY]

Rep. Rahm Emanuel [D-IL]

Rep. Philip English [R-PA]

Rep. Chaka Fattah [D-PA]

Rep. Gabrielle Giffords [D-AZ]

Rep. Barton Gordon [D-TN]

Rep. Rush Holt [D-NJ]

Rep. John Larson [D-CT]

Rep. Sander Levin [D-MI]

Rep. Carolyn Maloney [D-NY]

Rep. James McDermott [D-WA]

Rep. Kendrick Meek [D-FL]

Rep. Jerrold Nadler [D-NY]

Rep. Richard Neal [D-MA]

Rep. William Pascrell [D-NJ]

Rep. Earl Pomeroy [D-ND]

Rep. James Ramstad [R-MN]

Rep. Allyson Schwartz [D-PA]

Rep. Zackary Space [D-OH]

Rep. Fortney Stark [D-CA]

Rep. Christopher Van Hollen [D-MD]

Mortgage Forgiveness Debt Relief Act of 2007

(Referred to Senate Committee after being Received from House)

H. R. 3648

CURRENTLY IN THE SENATE OF THE UNITED STATES

October 4, 2007

Received; read twice and referred to the Committee on Finance

AN ACT: To amend the Internal Revenue Code of 1986 to exclude discharges of indebtedness on principal residences from gross income, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the `Mortgage Forgiveness Debt Relief Act of 2007'.

SEC. 2. DISCHARGES OF INDEBTEDNESS ON PRINCIPAL RESIDENCE EXCLUDED FROM GROSS INCOME.

(a) In General- Paragraph (1) of section 108(a) of the Internal Revenue Code of 1986 is amended by striking `or' at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting `, or', and by inserting after subparagraph (D) the following new subparagraph:

` (E) the indebtedness discharged is qualified principal residence indebtedness.'.

(b) Special Rules Relating to Qualified Principal Residence Indebtedness- Section 108 of such Code is amended by adding at the end the following new subsection:

` (h) Special Rules Relating to Qualified Principal Residence Indebtedness-

` (1) BASIS REDUCTION- The amount excluded from gross income by reason of subsection (a)(1)(E) shall be applied to reduce (but not below zero) the basis of the principal residence of the taxpayer.

` (2) QUALIFIED PRINCIPAL RESIDENCE INDEBTEDNESS- For purposes of this section, the term `qualified principal residence indebtedness' means acquisition indebtedness (within the meaning of section 163(h)(3)(B), applied by substituting `\$2,000,000 (\$1,000,000' for `\$1,000,000 (\$500,000' in clause (ii) thereof) with respect to the principal residence of the taxpayer.

` (3) EXCEPTION FOR CERTAIN DISCHARGES NOT RELATED TO TAXPAYER'S FINANCIAL CONDITION- Subsection (a)(1)(E) shall not apply to the discharge of a loan if the discharge is on account of services performed for the lender or any other factor not directly related to a decline in the value of the residence or to the financial condition of the taxpayer.

` (4) ORDERING RULE- If any loan is discharged, in whole or in part, and only a portion of such loan is qualified principal residence indebtedness, subsection (a)(1)(E) shall apply only to so much of the amount discharged as exceeds the amount of the loan (as determined immediately before such discharge) which is not qualified principal residence indebtedness.

` (5) PRINCIPAL RESIDENCE- For purposes of this subsection, the term `principal residence' has the same meaning as when used in section 121.'.

(c) Coordination-

(1) Subparagraph (A) of section 108(a)(2) of such Code is amended by striking `and (D)' and inserting `(D), and (E)'.

(2) Paragraph (2) of section 108(a) of such Code is amended by adding at the end the following new subparagraph:

`(C) PRINCIPAL RESIDENCE EXCLUSION TAKES PRECEDENCE OVER INSOLVENCY EXCLUSION UNLESS ELECTED OTHERWISE- Paragraph (1)(B) shall not apply to a discharge to which paragraph (1)(E) applies unless the taxpayer elects to apply paragraph (1)(B) in lieu of paragraph (1)(E).'

(d) Effective Date- The amendments made by this section shall apply to discharges of indebtedness on or after January 1, 2007.

SEC. 3. LONG-TERM EXTENSION OF DEDUCTION FOR MORTGAGE INSURANCE PREMIUMS.

(a) In General- Subparagraph (E) of section 163(h)(3) of the Internal Revenue Code of 1986 (relating to mortgage insurance premiums treated as interest) is amended by striking clauses (iii) and (iv) and inserting the following new clause:

`(iii) APPLICATION- Clause (i) shall not apply with respect to any mortgage insurance contract issued before January 1, 2007, or after December 31, 2014.'

(b) Effective Date- The amendment made by subsection (a) shall apply to contracts issued after December 31, 2006.

SEC. 4. ALTERNATIVE TESTS FOR QUALIFYING AS COOPERATIVE HOUSING CORPORATION.

(a) In General- Subparagraph (D) of section 216(b)(1) of the Internal Revenue Code of 1986 (defining cooperative housing corporation) is amended to read as follows:

`(D) meeting 1 or more of the following requirements for the taxable year in which the taxes and interest described in subsection (a) are paid or incurred:

`(i) 80 percent or more of the corporation's gross income for such taxable year is derived from tenant-stockholders.

`(ii) At all times during such taxable year, 80 percent or more of the total square footage of the corporation's property is used or available for use by the tenant-stockholders for residential purposes or purposes ancillary to such residential use.

`(iii) 90 percent or more of the expenditures of the corporation paid or incurred during such taxable year are paid or incurred for the acquisition, construction, management, maintenance, or care of the corporation's property for the benefit of the tenant-stockholders.'

(b) Effective Date- The amendment made by this section shall apply to taxable years ending after the date of the enactment of this Act.

SEC. 5. GAIN FROM SALE OF PRINCIPAL RESIDENCE ALLOCATED TO NONQUALIFIED USE NOT EXCLUDED FROM INCOME.

(a) In General- Subsection (b) of section 121 of the Internal Revenue Code of 1986 (relating to limitations) is amended by adding at the end the following new paragraph:

`(4) EXCLUSION OF GAIN ALLOCATED TO NONQUALIFIED USE-

`(A) IN GENERAL- Subsection (a) shall not apply to so much of the gain from the sale or exchange of property as is allocated to periods of nonqualified use.

`(B) GAIN ALLOCATED TO PERIODS OF NONQUALIFIED USE- For purposes of subparagraph (A), gain shall be allocated to periods of nonqualified use based on the ratio which--

`(i) the aggregate periods of nonqualified use during the period such property was owned by the taxpayer, bears to

`(ii) the period such property was owned by the taxpayer.

`(C) PERIOD OF NONQUALIFIED USE- For purposes of this paragraph--

`(i) IN GENERAL- The term `period of nonqualified use' means any period (other than the portion of any period preceding January 1, 2008) during which the property is not used as the principal residence of the taxpayer or the taxpayer's spouse or former spouse.

`(ii) EXCEPTIONS- The term `period of nonqualified use' does not include--

`(I) any portion of the 5-year period described in subsection (a) which is after the last date that such property is used as the principal residence of the taxpayer or the taxpayer's spouse,

`(II) any period (not to exceed an aggregate period of 10 years) during which the taxpayer or the taxpayer's spouse is serving on qualified official extended duty (as defined in subsection (d)(9)(C)) described in clause (i), (ii), or (iii) of subsection (d)(9)(A), and

`(III) any other period of temporary absence (not to exceed an aggregate period of 2 years) due to change of employment, health conditions, or such other unforeseen circumstances as may be specified by the Secretary.

`(D) COORDINATION WITH RECOGNITION OF GAIN ATTRIBUTABLE TO DEPRECIATION- For purposes of this paragraph--

`(i) subparagraph (A) shall be applied after the application of subsection (d)(6), and

`(ii) subparagraph (B) shall be applied without regard to any gain to which subsection (d)(6) applies.'

(b) Effective Date- The amendment made by this section shall apply to sales and exchanges after December 31, 2007.

SEC. 6. TIME FOR PAYMENT OF CORPORATE ESTIMATED TAXES.

Subparagraph (B) of section 401(1) of the Tax Increase Prevention and Reconciliation Act of 2005 is amended by striking the percentage contained therein and inserting `116.75 percent'.

Passed the House of Representatives October 4, 2007. Attest: LORRAINE C. MILLER, Clerk.

Information/References:

1. U.S. Library of Congress
<http://www.thomas.loc.gov/cgi-bin/query/D?c110:4:./temp/~c110mpzq9k::>
2. BrokerOutpost.com <http://forum.brokeroutpost.com/loans/forum/2/171811.htm>
3. www.Congress.org

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